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NEA FOR FRONT OFFICE AND IPA, NSC FOR SHAPIRO/KUMAR,  
TREASURY FOR DGLASER/DMOGER

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TAGS: [EFIN](#) [KTFN](#) [EAID](#) [PREL](#) [PTER](#) [KWBG](#) [IS](#)  
SUBJECT: TREASURY DAS GLASER VISIT TO JERUSALEM JULY 29-30

REF: A. TEL AVIV 1237  
[1](#)B. TEL AVIV 1719

Classified By: DPO Greg Marchese for Reasons 1.4(b) and (d)

[1](#)1. (S) Summary: Deputy Assistant Secretary (DAS) of the Treasury for Terrorist Financing and Financial Crimes Daniel Glaser met with Prime Minister Fayyad and officials from the Palestinian Monetary Authority (PMA), including PMA Governor Jihad al-Wazir, on July 29 to express appreciation for the Palestinian Authority,s (PA) ongoing efforts to counter Hamas financing and implement anti-money laundering (AML) controls, and to encourage PMA officials to continue Israeli-Palestinian bilateral discussions on these topics. PA officials reiterated their commitment to comply with international best practices on AML, including a move to full membership in the Middle East and North Africa Financial Action Task Force (MENAFATF) in 2010. Fayyad also endorsed USG designation of Gaza-based Islamic National Bank for providing support to Hamas. The Ramallah-based heads of two of the largest banks in Gaza told DAS Glaser that banks in Gaza would close if Hamas tried to interfere with them. End summary.

PA Continues Efforts to Counter Hamas Finances  
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[1](#)2. (C) In response to DAS Glaser's praise for reforms of the PA Zakat committees and charitable societies in the West Bank, Fayyad said that, once they "cracked the nut" with Zakat reforms, going after Hamas became much easier. Fayyad relayed that wresting control of the charitable sector in the West Bank from Hamas had definitely hurt the movement, and that Hamas had put restoration of their control over charities on a par with detainees in negotiations over allowing Gaza-based Fatah delegates to the attend this week's Fatah congress. Al-Wazir added that USD 8.5 million had been seized from Hamas in the West Bank in the last year. Fayyad said that additional effort was needed to improve PA judicial branch handling of AML cases, and welcomed additional technical assistance for the PA's AML regime.

[1](#)3. (C) Discussing implementation of AML policies to further safeguard the Palestinian financial system from exploitation by Hamas and criminal enterprises, Fayyad said that the effort had to be consistent, and that the system remained at risk both in Gaza and the West Bank. According to the Prime Minister, Israeli restrictions on the flow of cash and goods have created distortions in the economy and the exodus of financial activity to the informal sector -- such as the Hamas-affiliated Islamic National Bank (INB) in Gaza -- is not without consequence. "If they have the cash, they can ask for favors," he said.

[1](#)4. (S) Fayyad said that he would support a U.S. designation of INB, although al-Wazir asked that USG action be delayed

until after he had completed forced liquidation of Al Aqsa Islamic Bank, which was designated in 2001. Al-Wazir expressed concern that such an action before the Al Aqsa liquidation could endanger Palestinian commercial banks' correspondent relationships. Al-Wazir and Fayyad asked that any USG public statement on the designation emphasize that INB is not a bank, but a "glorified money changer." Al-Wazir also noted that he had sent a letter to each of the central bank governors in the region asking them not to permit INB to operate in their jurisdictions.

#### PMA Continues Bilateral Engagement, Despite Concerns

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15. (C) Regarding PA-GOI engagement on banking issues, al-Wazir reiterated his concerns about allowing the PMA's Financial Follow-up Unit (FFU) to engage directly with the Israeli Money Laundering and Terror Financing Prohibition Authority (IMPA), due to IMPA's location in the Ministry of Justice and close relationship to Israel's security establishment. He also expressed concerns that the GOI was using the ongoing bilateral meetings on banking cooperation (REF A) to further the "Israeli mechanism" presented in May. Al-Wazir emphasized that the PMA has a good relationship with the Bank of Israel (BOI), noting the recent agreement between the PMA and BOI to allow a one-time transfer of millions of shekels in excess cash from the West Bank to BOI for deposit with Israeli commercial banks (REF B).

16. (C) DAS Glaser noted that such engagement would be worthwhile even if information sharing was off the table, pointing out that PMA officials have already met with IMPA

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within the context of the BOI-led bilateral meetings and have discussed AML/CFT issues despite the FFU's absence. Glaser also suggested that the USG could attend such a meeting, if it would increase confidence that neither the mechanism nor establishing an information sharing relationship was on the agenda. Without responding directly to the offer, al-Wazir said that the AML law of 2007 does not allow for information sharing, and suggested that the law may need to be changed eventually. Al-Wazir added that he had budgeted for the PMA to become a full member of the MENAFATF in 2010 and is planning to have the FFU conduct a self-assessment of the PA's AML/CFT regime this fall. (Note: the PMA currently holds observer status with the MENAFATF; member states are required to undergo a mutual evaluation of which the self-assessment is the first step.)

#### Gaza Portion of the Pie Shrinking

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17. (C) In a July 30 meeting, Bank of Palestine Chairman Hashim Shawa and Cairo Amman Bank Deputy General Manager Joseph Nesnas told DAS Glaser that banks in Gaza would close if Hamas tried to interfere with them. The bankers explained that interference in the banking system is a red-line for Hamas: Hamas will not risk being seen as the reason the banking system would shut down in Gaza. Using graphs of loans and deposits in pre- and post-Hamas takeover Gaza, the bankers demonstrated that the Gaza portion of the pie is shrinking. They said that Hamas can get everything they need from the tunnels and that tunnels operators clean their profits through investments in real estate. In response to DAS Glaser's question, both bankers also noted that the PMA maintains regular supervision over bank branches in Gaza and that the audits to which they are subjected may even be tougher in Gaza than in the West Bank.

WALLES